

**UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION**

RTO/ISO Credit Principles and Practices)	Docket Nos.	AD21-6-000
)		
Request for Technical Conference and Petition for Rulemaking)		AD20-6-000
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**Opening Statement of Robert Marsh
CIO, Monolith Energy Trading
On Behalf of the Energy Trading Institute**

My name is Rob Marsh and I am the Chief Investment Officer for Monolith Energy Trading. Founded in 2010, our firm focuses on trading FTRs in the organized wholesale markets. Monolith is also one of the founding members of the Energy Trading Institute, a trade group of like-minded companies that advocate for open, transparent, competitive, and fair electricity markets. I would like to thank staff for holding this important technical conference. The topic of credit requirements is certainly a timely one, particularly in light of the weather events experienced across the country in February.

It is our view that collateral requirements must strike a critical balance of maintaining open access, liquidity, and competition, while protecting the integrity of the market. We recognize that the methodology for determining collateral requirements in a complex, volatile market is challenging, and we are grateful for the efforts at the ISO/RTOs to tackle this challenge.

Fortunately, we have several models to learn from. Both the exchanges and history in other markets have given us an appropriate and useful framework for this discussion. Several elements are key to a well-functioning credit policy:

- Initial margin requirements should be transparent and based on best-practices used in established exchange markets. The organized markets should strive to adequately collateralize, but not over collateralize, portfolios. In general, risk models targeting 95% or 97% coverage should be sufficient. Over collateralization will lead to a lack of liquidity and weaken price discovery mechanisms.
- The minimum collateral requirement for FTRs is a useful tool for protecting the markets from unqualified participants, but they should not be considered a backstop for inadequate margin requirements. Initial margin must be properly established for all

portfolios. Additionally, asking firms to set aside an arbitrary amount of capital to enter the FTR market is not a suitable alternative to establishing a proper margining routine.

- Mark to auction is a common tool and should be utilized in all RTO/ISO markets. Organized markets that do not currently have Balance of the Planning Period FTR auctions should prioritize adding them. In addition to providing a necessary mechanism for evaluating emerging credit risks, they enhance price discovery and provide liquidity.
- Variation margin should be utilized to secure the market to changing risk profiles. While Mark to auction is the obvious tool for calculating variation margin, additional data, such as Day-ahead and Real-time price volatility and the financial condition of market participants, should be considered in the variation margin models.
- ISO/RTOs should make sure that their bidding collateral models align with their holding collateral models. No market participant should be able to clear a portfolio that they are undercollateralized to hold.
- Markets that pay upfront for short positions or do not require payment of long positions should reassess those policies.
- Collateral should roll off as positions roll off and resettlements should be limited to extreme circumstances.
- Finally, credit requirements should be viewed holistically, and the models used should be constantly re-evaluated. Too often, credit policy changes have been reactive rather than proactive. They are tailored to specifically address the last default, rather than comprehensively examined to determine their underlying flaws. In addition, ISO/RTOs should be looking at margin requirements for their entire range of products, not just FTRs. For example, collateral for virtual transactions should also be commensurate with the risk posed by those transactions. Each market should assess its credit requirements for all products and constantly evaluate weaknesses in its model.

Thank you for the opportunity to share my perspective.

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